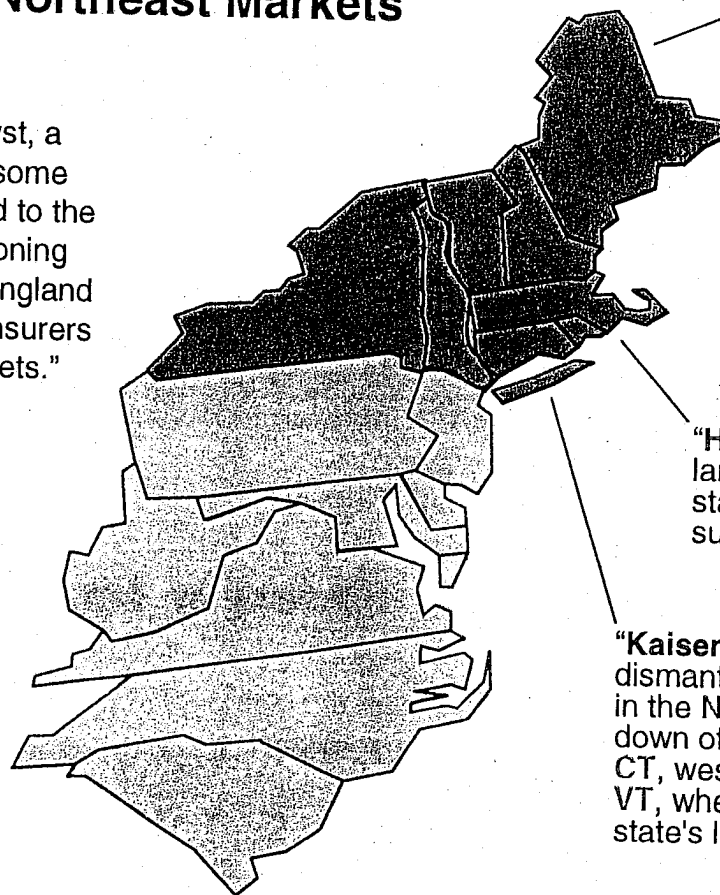


The need to operate in a sound business manner is driving health plans - even non-profits - to exit unprofitable markets.

Health Plans Exiting Northeast Markets (1999)

- According to Community Catalyst, a consumer advocacy group, "in some states, insurers have responded to the financial crisis by simply abandoning unprofitable markets. In New England alone, three major **non-profit** insurers have retreated from some markets."



"MA based **Tufts Health Plans**, the region's second-largest HMO, is also curtailing its New England operations. In October, it announced plans to pull out of Maine in October, and just before Thanksgiving it announced it would also shut down its RI and NH operations because of an estimated \$45 million in operating losses."

"**Harvard Pilgrim**, RI's 2nd largest insurer, is leaving the state in 1999, displacing 155K subscribers."

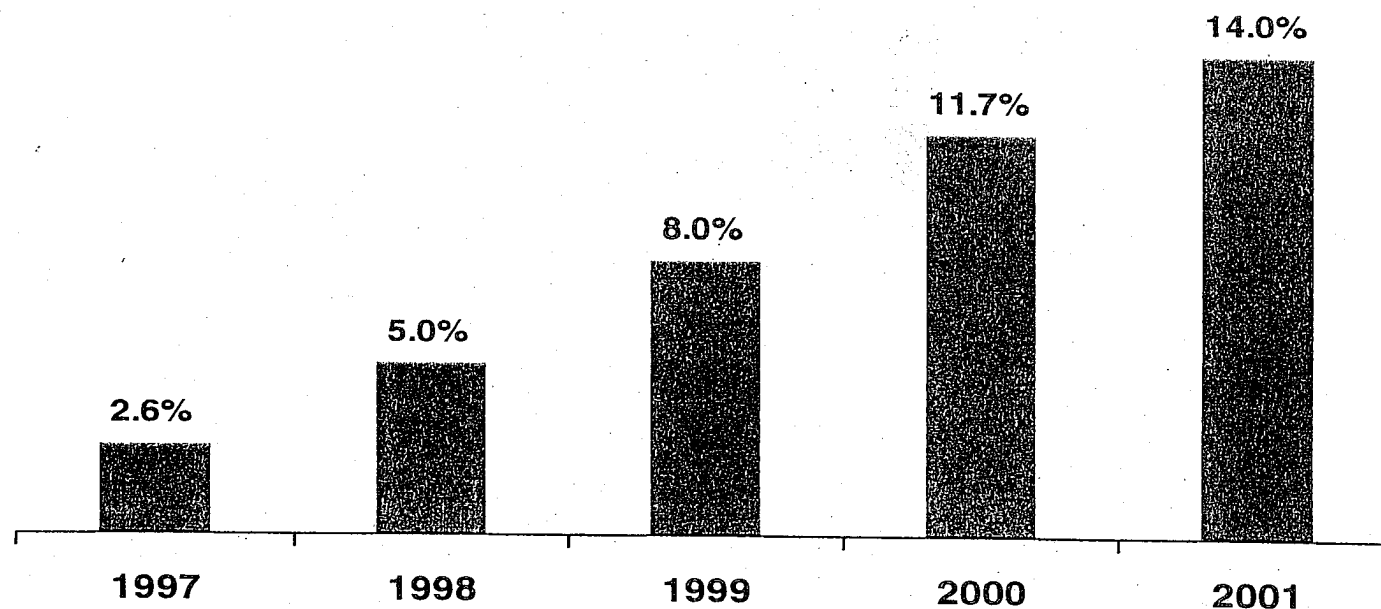
"**Kaiser Permanente** is dismantling its entire network in the Northeast, shutting down offices and clinics in NY, CT, western MA, as well as in VT, where it had been the state's largest HMO."

Source: Community Catalyst, *States of Health*, Volume 9, No. 4, December 1999

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Health plans have been forced to raise rates across all products, including HMO and POS products.

HMO/POS Rates, % Increase in Average Per Employee Premium
(Fully Insured Plans Only)



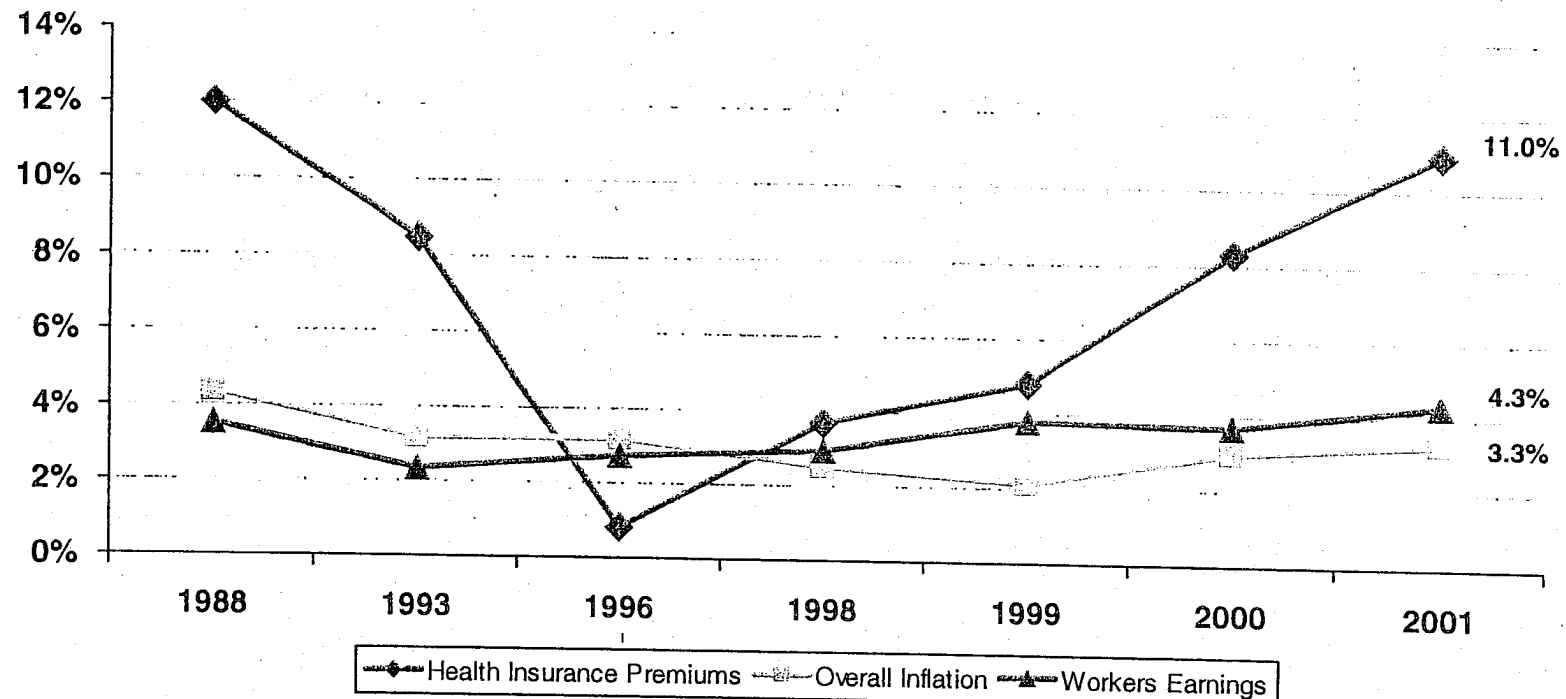
Source: Credit Suisse First Boston, *Benefit Manager Survey*, January 30, 2001

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The rise in health insurance premiums has outpaced other national indicators since 1996.

Health Insurance Premiums Compared to Other Indicators (1998-2001)



Premium increases noted in graph reflect an average of HMO, PPO, POS and Indemnity plans.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001; KPMG Survey of Employer-Sponsored Health Benefits: 1998, 1993, 1996

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Estimates for the combined cost of investments for large health plans range from \$420 - \$640 million, and possibly more, over the next five years.

Estimated Average Health Plan Investment Needs In the Next 3-5 Years*
(for Large Health Plans with Revenues > \$500 Million)

Investment Category	Low	High
HIPAA Health Insurance Portability and Accountability Act	\$30	\$60
eCommerce	\$10	\$40
Consumer-focused Initiatives	\$20	\$40
IT Infrastructure Improvements	\$30	\$50
Merger and Acquisition Activity**	\$330	\$450
Other (e.g., merger integration expenditures, partnerships / interconnectivity, potential future regulations, etc.)	Additional	Additional
Total Investment (in Millions)	\$420+	\$640+

*Estimates based on industry analyst projections and current market conditions; may evolve given new information over time

** Estimated based on the average actual cash expended on mid-range health plan acquisitions since 1997, screened against available merger candidates in CareFirst's markets

Source: Gartner Research, 2000 Payer IT Budget and Staffing Survey, August 14, 2001; Gartner Research, 2000 IT Spending and Staffing Survey, October 2, 2000; SEC Filings; Company press releases; Merger news articles; Accenture analysis, surveys and client experience

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Recent survey findings regarding IT expenditures suggest that a plan similar in size to CareFirst might allocate \$5 - \$10 million a year on HIPAA remediation.

Estimated Health Plan HIPAA Budget*

Gartner - 2000 Payer IT Budget and Staffing Survey Health Plans >\$500MM Revenues

	\$PMPY
Operating budget allocation	\$ 32.28
Capital budget allocation	\$ 14.05
Total IT Spend \$PMPY	\$ 46.33

Gartner - 2000 IT Spending and Staffing Survey Insurance - Health/HMO

IT Budget Category	% of IT
New Developments	17.4%
• 100% allocated to: HIPAA, eCommerce, Consumer-focused Initiatives and IT Infrastructure	
Major Enhancements	12.1%
• 100% allocated to: HIPAA, eCommerce, Consumer-focused Initiatives and IT Infrastructure	
Application Support & Maintenance	15.0%
• <5% allocated to: eCommerce	
Infrastructure & Administration	55.5%
• <5% allocated to: eCommerce	

IT Spend Assumptions

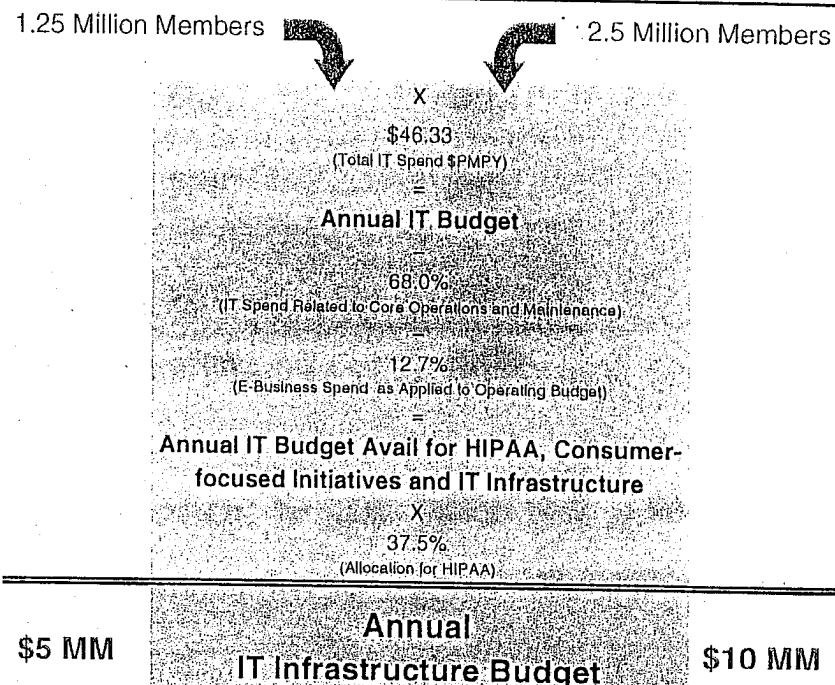
	% of IT
Core Operations and Maintenance	68.2%
E-Business as % of Operating Budget	12.7%

Low Estimate

1.25 Million Members

High Estimate

2.5 Million Members



*Budget estimates were modeled according to Gartner data relating to IT Budgets and E-Business spend as well as Accenture client experience and should be considered as a high-level range for large health plans. Approximately 80% of HIPAA investments (expected over the next 3-5 years) are estimated to be IT-related.

Source: Gartner Research, 2000 Payer IT Budget and Staffing Survey, August 14, 2001; Gartner Research, 2000 IT Spending and Staffing Survey, October 2, 2000; Accenture Analysis

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The first set of HIPAA standards, due in October 2002, addresses electronic transactions and code sets.

HIPAA Standards

- The first set, published in August 2000, provide the healthcare industry until October 2002 to adopt:
 - Electronic transaction standards
 - Code sets
- The second set of standards, referred to as the Privacy Rule, became effective in April 2001 with a two-year compliance term to:
 - Establish patient rights
- States can expect at least seven more waves of HIPAA regulations over the next two years, with each allowing roughly 24 months for implementation:
 - National provider identifiers
 - National employer identifiers
 - Security, national health plan identifiers
 - Claims attachments
 - Enforcement
 - National individual identifiers

Source: www.aspe.hhs.gov/adminsimp, *Frequently Asked Questions About Electronic Transaction Standards Adopted Under HIPAA*

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The costs associated with HIPAA implementation and compliance vary, but the investment appears inevitable.

HIPAA Implementation Costs – Industry Estimates

- Although there is some chance that a delay in publishing and/or mandating compliance of HIPAA standards may occur, the investment appears inevitable
- The U.S. Office of Management and Budget has estimated HIPAA implementation will cost the entire healthcare industry (both public and private sectors) approximately \$3.8 billion over five years
- Others have reported that industry-wide costs could go as high as \$43 billion for the same time period
- The cost of HIPAA will depend on the strategy taken for achieving compliance:
 - information system replacement
 - the start-up costs of automation
 - training and process reengineering
 - costs associated with addressing implementation problems

HIPAA Implementation Costs – Payer Estimates

- For at least 75 percent of healthcare organizations (payers and providers), the time and money spent on achieving HIPAA-compliance by 2004 will represent between one and two times their efforts and costs for Y2K (0.8 probability).
- However, 73% of all payers and providers polled by Gartner indicated that they have not developed preliminary overall budgets for achieving HIPAA compliance
- Of the payers that did provide information for their overall budgets, estimates ranged from \$50,000 to \$100 million
- On average, the overall HIPAA budget was \$10 million; however an earlier survey by Gartner suggests that spending is higher for larger payers
- For payers, 2001 budgets ranged from a low of \$25,000 for a small private insurer to \$60 million for one of the nation's largest HMOs, with an average of \$4.2 million

Source: Legislative Analyst's Office of California, *Analysis of the 2001-2002 Budget Bill: Health Insurance Portability and Accountability Act*, Gartner Research, HIPAA: State of the Industry Through First-Quarter 2001, May 1, 2001

Estimated Average Health Plan Investment Needs In the Next 3-5 Years*

(for Large Health Plans with Revenues > \$500 Million)



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Recent survey findings regarding IT expenditures suggest that a plan similar in size to CareFirst might allocate \$5 - \$10 million a year to eCommerce initiatives.

Estimated Health Plan eCommerce Budget*

Gartner - 2000 Payer IT Budget and Staffing Survey Health Plans >\$500MM Revenues

	\$PMPY
Operating budget allocation	\$ 32.28
Capital budget allocation	\$ 14.05
Total IT Spend \$PMPY	\$ 46.33

Gartner - 2000 IT Spending and Staffing Survey All Industries

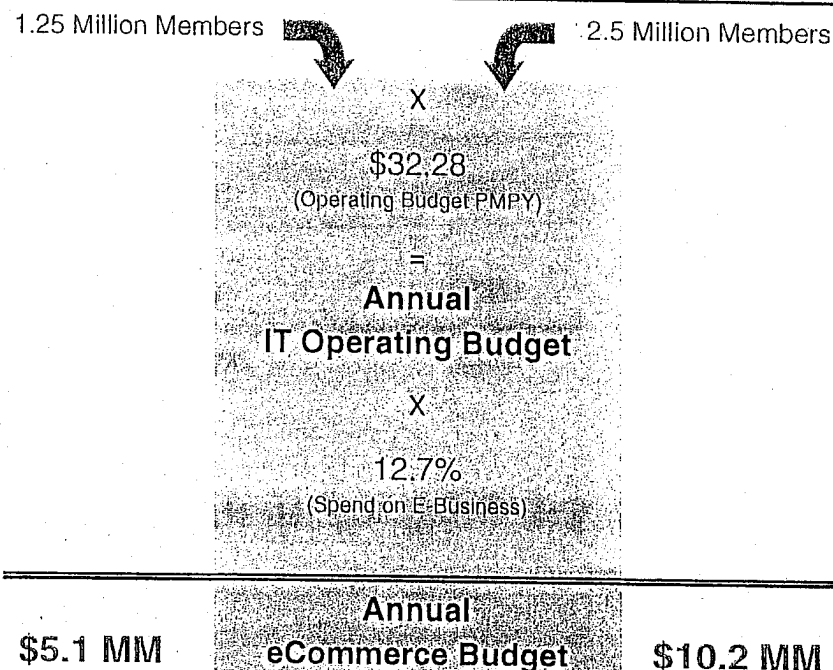
	% of IT
Spend on E-Business as % of Operating Budget	12.7%
<i>Allocation of E-Business Spend by IT Budget Category</i>	
• 50% on New Developments	
• 21% on Major Enhancements	
• 13% on Application Support & Maintenance	
• 17% on Infrastructure & Administration	

Low Estimate

1.25 Million Members

High Estimate

2.5 Million Members



*eCommerce improvements are expected to be implemented over 2-4 years. Data on this slide estimates a range for an annual budget.

Source: Gartner Research, 2000 Payer IT Budget and Staffing Survey, August 14, 2001; Gartner Research, 2000 IT Spending and Staffing Survey, October 2, 2000; Accenture Analysis

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